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NOV 30 1983

DOI: [REDACTED]
EIN: [REDACTED]

Ladies and Gentlemen:

We have considered your application for recognition of exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code. You also stated that you are not a private foundation because you are an organization described in section 509(a)(1) and 170(b)(1)(A)(vi) of the Code.

According to your Articles of Incorporation, you were incorporated under the [REDACTED] Non-profit Corporation Act on [REDACTED], to operate exclusively for charitable, scientific, and educational purposes by seeking to assist those persons within the area of [REDACTED], bounded by [REDACTED] and [REDACTED], on the north; [REDACTED], on the east; [REDACTED] and [REDACTED], on the south; and [REDACTED], and [REDACTED] on the west who are attempting to develop businesses or community projects which the corporation deems beneficial to the community because they provide necessary business services to the community and tend to develop an entrepreneurial group in the community. Your Articles further state that your principal objectives shall be to benefit the community by fostering business and industry for the citizens of the city of [REDACTED]. You will further the economic development of the city of [REDACTED] especially the economic development of the [REDACTED] section of [REDACTED], as described above by promoting and assisting the growth and development of business concerns, especially small business concerns in the [REDACTED] section of [REDACTED].

In the information submitted in support of your application, you describe the area in which you operate as blighted and depressed. You state that you plan to upgrade the economic life of all the "target areas" residents, but most of your emphasis will be placed on minority entrepreneurs. The term "target areas" refers to the use of that term in the consultant's report entitled "[REDACTED]". Through your program, you hope to encourage the establishment of businesses that will enable the community to grow economically and provide needed services to residents of the "target areas".

[REDACTED]

In evaluating the socio-economic impact of such businesses and how they contribute to lessening neighborhood tensions, prejudice, discrimination and community deterioration, you will consider the number of area residents to be employed, new tax dollars generated, stabilizing effect on the community, and their attraction of new residents to the community.

In selecting minority business persons for assistance, the criteria for selection will be that the person has shown interest in going into business and shows ability to run a business successfully. You will assist these persons in preparing and packaging loan applications and obtaining low-interest loans from potential funding sources for businesses unable to obtain funds from conventional sources due to their location or the applicant's status in a minority group.

By inducing businesses to locate in what you describe as a depressed area, you believe that you will be reducing poverty and lessening neighborhood tensions caused by a lack of jobs and job opportunities as well as combatting community deterioration. In keeping with these objectives, you plan to purchase blighted land in the community and convert it into a light industrial park and mini-malls. Lots in the park will be leased to business enterprises on terms significantly favorable to attract tenants to the community. Tenants will be required by their leases to hire a significant number of presently unemployed residents of the community and train them in needed skills. To ensure the greatest community benefit in selecting tenants for the light industrial park, you will consider only those industrial enterprises whose hiring policies conform to current fair employment legislation. Businesses having initial requirements for low skill workers will be favored over those requiring high skill workers since the former will be of greater immediate benefit to the surrounding community.

In support of your application, you have submitted copies of the "[REDACTED]", a portion of the "[REDACTED]" that relates to the [REDACTED] area, your proposal to [REDACTED], a contract that you have entered into with [REDACTED], an information package from [REDACTED], and various newspaper articles concerning your activities.

The primary thrust of these various documents is the economic-business development of the [REDACTED] area which is included in your area of operation. They make little mention of and devote little attention to issues such as lessening neighborhood tensions, eliminating prejudice and discrimination, or combatting community deterioration.

The "[REDACTED]" states that its primary purpose is to prepare an economic development program that will result in the reinvestment of both public and private resources to strengthen the business and employment base in the area.

[REDACTED]

On [REDACTED], you signed a contract with [REDACTED]. As contractor, you are to perform the scope of the services set forth therein. The overall work objective is to enhance and retain business opportunities, stimulate job creation, and improve the economy and marketability of the [REDACTED] area. A related objective is to implement the project activities suggested in the "[REDACTED]" for the following commercial modes: (1) [REDACTED]; (2) [REDACTED]; (3) [REDACTED]; (4) [REDACTED]. This contract lists nine tasks which you are to perform. They all are directed to the economic and business development of the [REDACTED] area.

Section 501(c)(3) of the Code provides exemption for organizations that are organized and operated exclusively for religious, charitable, educational or scientific purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

According to section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations, in order to be exempt as an organization described in section 501(c)(3), an organization must be both organized and operated exclusively for one or more of the purposes specified in such section. If an organization fails to meet either the organizational test or the operational test, it is not exempt.

Section 1.501(c)(3)-1(b)(1) of the regulations states that an organization is organized exclusively for one or more exempt purposes only if its articles of organization limit its purposes to one or more exempt purposes; and do not expressly empower the organization of engage, otherwise than as an insubstantial part of its activities, in activities which in themselves are not in furtherance of one or more exempt purposes.

The regulations further provide that an organization is not organized exclusively for one or more exempt purposes if its articles expressly empower it to carry on, otherwise than as an insubstantial part of its activities, activities which are not in furtherance of one or more exempt purposes, even though such organization is created for a purpose that is no broader than the purposes specified in section 501(c)(3). Thus, an organization that is empowered by its articles "to engage in a manufacturing business", or "to engage in the operation of a social club" does not meet the organizational test regardless of the fact that its articles may state that such organization is created "for charitable purposes within the meaning of section 501(c)(3) of the Code."

According to section 1.501(c)(3)-1(c)(1) of the regulations, an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish

one or more such activities specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations states that an organization is not organized or operated exclusively for one or more of the purposes specified in section 501(c)(3) unless it serves a public rather than a private interest. Thus, to meet this requirement, it is necessary for an organization to establish that it is not organized or operated for the benefit private interests such as designated individuals, the creator or his family, shareholders of the organization, or persons controlled directly or indirectly by such private interests.

Section 1.501(c)(3)-1(d)(2) of the regulations defines the term "charitable" as used in section 501(c)(3) in its generally accepted legal sense and, therefore, is not to be construed as limited by the separate enumeration in section 501(c)(3) of other tax exempt purposes which may fall within the broad outlines of "charity" as developed by judicial decisions. The term includes the promotion of social welfare by lessening neighborhood tensions, eliminating prejudice and discrimination, defending human and civil rights secured by law, or combatting community deterioration and juvenile delinquency.

Rev. Rul. 70-585, 1970-2 C.B. 115, states in situation 3, that an organization that formulates plans for the renewal and rehabilitation of an area of the city where the median income is lower than other sections of the city and the housing is old and deteriorated, and which sponsors a renewal project in that area of the city is exempt under section 501(c)(3). That organization's membership was composed of residents, businesses and community organizations in the area, and as part of its activities it purchased an apartment house to rehabilitate and rent to low and moderate income families. It was held that the organization's activities combatted community deterioration by assisting in the renovation of a run-down area.

Rev. Rul. 74-587, 1974-2 C.B. 162 held that a nonprofit organization providing financial assistance to various businesses in a depressed area qualified for exemption under section 501(c)(3) as combatting community deterioration. The funds were distributed to businesses and individuals unable to otherwise obtain funds due to the risks involved and thus the organization was combatting community deterioration.

Rev. Rul. 76-419, 1976-2 C.B. 146 dealt with an organization that purchased land in a blighted area and converted it into an industrial park. The lots were leased at a favorable rates to industrial tenants. These enterprises were required to hire and train people from the economically depressed area. By inducing industry to locate in an economically depressed area and hire the unemployed, the organization benefited the community and combatted community deterioration.

[REDACTED]

A contrasting position was taken in Better Business Bureau v. United States, 326 U.S. 479 (1945) which stated that an organization formed for the mutual welfare and improvement of business methods among merchants so that the public could obtain proper and fair treatment with such merchants was not operated exclusively for educational or scientific purposes because, although some of the activities were educational, the activities were not exclusively educational. The court stated that the presence of a single noneducational purpose, if substantial in nature, would destroy the exemption. In this case, the nonexempt purpose was the promotion of business.

Rev. Rul. 77-111, 1977-1 C.B. 144 held that an organization formed to increase business patronage in a deteriorated area by providing information on the area's shopping opportunities was not operated for charitable purposes and is not exempt under section 501(c)(3). Increasing business patronage and increasing lagging sales are not charitable purposes. This Rev. Rul. similarly held that an organization whose purpose was to revive retail sales in an area of economic decline by constructing a shopping center did not qualify for exemption under section 501(c)(3). Since the organization did not limit its aid to businesses that were owned by members of a minority group or to businesses that would only locate within the area because of the center, the end result was that the organization's activities were directed to the benefit of businesses in the shopping center rather than to exclusively to accomplish section 501(c)(3) purposes.

Your stated purpose of assisting persons in the [REDACTED] section of [REDACTED], who are attempting to develop business projects that you deem beneficial to the community because they provide necessary business services and tend to develop an enterprenurial group in the community is clearly not a purpose contemplated by section 501(c)(3) of the Code. Furthering the economic development of [REDACTED], especially that of the [REDACTED] section may result in improvement of the community. However, such a purpose is primarily directed toward improving business conditions as opposed to accomplishing any of the purposes described in section 501(c)(3) or benefiting any recognized charitable class. Promoting the economic and business development of the community is clearly not an exclusively charitable or educational purpose within the meaning of section 501(c)(3).

According to the contract you signed with [REDACTED] on [REDACTED], your activities under this agreement will be directed primarily towards improving the economy and marketability of the [REDACTED] area. A related objective is to implement the project activities suggested in the "[REDACTED]" for certain designated priority commercial modes.

[REDACTED]

The nine tasks that you are to perform under the terms of this contract are directed primarily to the business development and economic development of the [REDACTED] area. Business and economic development are not activities described in section 501(c)(3) of the Code.

Although your activities may contribute to the advancement of purposes described in section 501(c)(3) of the Code, such as creating jobs, lessening neighborhood tensions, and combatting community deterioration, their primary, overall thrust is to promote business and economic development rather than accomplish exclusively section 501(c)(3) activities. While your activities may result in benefits and improvements to the community, the primary beneficiaries will be the businesses that are already located or that will re-locate in the [REDACTED] area.

Therefore, because you are neither organized nor operated exclusively for charitable or educational, or any of the other purposes specified in section 501(c)(3) of the Code, we rule that you are not exempt from federal income tax under section 501(c)(3) of the Code.

You are required to file federal income tax returns on Form 1120 for each year that you have been in existence. Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement, signed by one of your principal officers, must be submitted within 21 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request this conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, he/she must file a proper power of attorney and otherwise qualify under Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides, in part, that, "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

[REDACTED]

If we do not hear from you within 21 days, this ruling will become final, and copies will be forwarded to the District Director, Baltimore, Maryland, who is your key District Director for exempt organization matters. The appropriate District of Columbia officials will be notified in accordance with section 6104(c) of the Code.

Sincerely yours,

[REDACTED]

[REDACTED]

Chief, Rulings Section
Exempt Organizations
Technical Branch

cc: [REDACTED]

cc: [REDACTED]

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]

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JUL 25 1984

District Director of Internal Revenue
EP/EO Division Group 7204
Baltimore

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JUL 25 1984

District Director of Internal Revenue
CHIEF, EP/EO DIVISION
Baltimore